

WESTERN DEPARTMENT STORES AND SUBSIDIARIES

REPORT to STOCKHOLDERS

January 31, 1943

Stores operated:

OLDS, WORTMAN & KING

Portland
Est. 1851

KAHN'S

Oakland
Est. 1879

RHODES BROTHERS

Tacoma
Est. 1892

WESTERN DEPARTMENT STORES

A California Corporation

Incorporated in 1937

BOARD OF DIRECTORS

J. R. BEARWALD

HERBERT E. CLAYBURGH

A. DOUGLAS McBRYDE

F. R. MCGREW

JOHN J. REILLY

F. A. WICKETT

F. J. YOUNG

OFFICERS

President JOHN J. REILLY

Vice-President A. DOUGLAS McBRYDE

Secretary and Treasurer F. R. MCGREW

Assistant Secretary JOHN J. GOLDBERG

Assistant Treasurer H. W. RHEUBOTTOM

LEGAL COUNSEL

JESSE H. STEINHART

PUBLIC ACCOUNTANTS

PRICE, WATERHOUSE & Co.

TRANSFER AGENT

THE ANGLO CALIFORNIA NATIONAL BANK

OF SAN FRANCISCO

No. 1 Sansome Street

San Francisco, California

REGISTRAR

WELLS FARGO BANK & UNION

TRUST Co.

Montgomery and Market Streets

San Francisco, California

Annual Stockholders Meeting Oakland, California, April 27, 1943, 10:00 o'clock A.M.

Executive Offices 1501 Broadway, Oakland, California (Kahn's Department Store)

Oakland, California

April 7, 1943

To the Stockholders of

WESTERN DEPARTMENT STORES:

Financial statements are presented for the fiscal year ended January 31, 1943, as reported on by Price, Waterhouse & Co., following their examination of the books of Western Department Stores and its wholly owned subsidiaries.

These statements consist of, (a) a consolidated balance sheet and earnings statement of Western Department Stores (the parent company), Kahn Department Stores, Inc., Olds, Wortman & King, Inc., Northwest Department Stores, Inc., (the three store operating companies) and Morrison & Tenth Company (the company which holds the lease upon the property occupied by the Portland store), and (b) the balance sheet and earnings statement of Shiels Estate Company and its wholly owned company, O'Farrell & Stockton Realty Company, which are not consolidated into the statements of the parent company but are shown separately.

EARNINGS AND FINANCIAL POSITION

The operating result for the year and comparison with the previous year is as follows:

	Year ended January 31		% Increase
	1943	1942	
Sales	\$15,416,248	\$11,388,126	35
Profit from store operations . . .	1,706,787	895,807	90
Profit before Federal taxes . . .	1,671,430	808,155	107
Federal taxes	1,181,000	419,201	182
Net Profit	490,430	388,954	26

As of January 31, 1943, accumulated and accrued dividends on the preferred stock of Western Department Stores amounted to \$634,834.37, or approximately \$10.94 per share outstanding. The agreement with bank and landlord creditors provides that no dividends can be paid by Western Department Stores without the prior consent of at least four of these creditors.

The working capital at the end of the year was \$2,296,289 compared with \$2,267,708. Cash increased from \$457,379 to \$1,059,838, accounts receivable show a decline from \$1,705,216 to \$1,192,736 and merchandise inventories (including goods in transit) increased from \$1,468,014 to \$2,236,618.

The decrease in accounts receivable is due largely to the government regulations in connection with installment sales and open charge accounts and the increase in inventory is due mainly to the need of purchasing merchandise whenever it can be obtained as shipments cannot be scheduled as formerly.

Provision has been made for Federal taxes in the amount of \$1,190,653 and tax notes to the amount of \$500,000 have been purchased in anticipation of tax payments.

INDEBTEDNESS

The indebtedness to bank and landlord creditors (\$2,891,589.65 in 1933) has been reduced to \$994,564.33 by payments made during the year totaling \$413,327.18.

Subsequent to January 31, 1943, arrangements were completed whereby one of the creditor banks has taken over by assignment the amounts owing to several of the other creditors. The indebtedness is now owed to two banks.

It is the opinion of the management that a new agreement will shortly be consummated modifying some of the terms and conditions contained in the original agreement dated August 21, 1933.

SHIELS ESTATE COMPANY

The principal asset underlying the investment in Shiels Estate Company is the property at O'Farrell and Stockton Streets in San Francisco, originally purchased for the company in 1927.

Your directors have stated in previous reports that it was their opinion the carrying value of this investment was substantially in excess of its estimated realizable value and a reserve of \$500,000 has been established out of surplus on the parent company's books to apply against possible loss.

RESERVE

A reserve of \$200,000 has been established out of surplus for contingencies and post-war adjustments.

GENERAL

Last year it was stated that no forecast could be made regarding future operations but fortunately we were able to surmount the many difficult problems and complete the year with a satisfactory result.

The abnormalities of the coming year, however, will be more acute. The problem of manpower alone becomes more serious day by day, the shortage of consumer goods is increasingly significant and additional restrictions and controls are continually being placed on the retail trade. It is therefore not possible at this time to make any predictions regarding future operations.

We are proud of the record and performance of our employees during the past year in their support of the various war efforts and we are especially appreciative of their loyal support as evidenced by the industry and resourcefulness which has enabled us to meet the many unusual problems faced during the past year.

FOR THE BOARD OF DIRECTORS

JOHN J. REILLY, *President*

ACCOUNTANTS' REPORT

San Francisco

April 7, 1943

TO THE BOARD OF DIRECTORS OF
WESTERN DEPARTMENT STORES

We have examined the accompanying financial statements of Western Department Stores and wholly owned companies as at January 31, 1943, as follows:

Western Department Stores and wholly owned store operating companies:

Consolidated balance sheet

Consolidated statement of profit and loss and earned surplus

Shiels Estate Company and wholly owned company:

Consolidated balance sheet

Consolidating statement of profit and loss and deficit

Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary.

In our opinion, the accompanying financial statements, as supplemented by the notes appended thereto, present fairly the position of the companies at January 31, 1943, and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & Co.

WESTERN DEPARTMENT
(A California Corporation)
AND WHOLLY OWNED STORES
CONSOLIDATED BALANCE SHEET
(With comparative figures for 1942)
(See accompanying notes)

ASSETS

	January 31	
	1943	1942
Current Assets:		
Cash in banks and on hand	\$1,059,838.62	\$ 457,379.28
Accounts receivable:		
Customers	\$1,125,565.49	\$1,668,591.61
Miscellaneous	67,171.25	36,625.00
	\$1,192,736.74	\$1,705,216.61
Less — Reserves for doubtful accounts	135,347.84	130,990.46
	\$1,057,388.90	\$1,574,226.15
Inventories of merchandise:		
On hand, at or below cost as determined by the retail inventory method	\$1,872,028.26	\$1,347,717.17
In transit, at cost	364,590.58	120,297.75
	\$2,236,618.84	\$1,468,014.92
Total current assets	\$4,353,846.36	\$3,499,620.35
Investment in and Advances to Shiels Estate Company (wholly owned) (Notes A and B):		
Investment	\$ 722,290.95	\$ 717,103.64
Less — Reserve	500,000.00	—
	\$ 222,290.95	\$ 717,103.64
Advances	11,684.00	15,179.76
	\$ 233,974.95	\$ 732,283.40
Miscellaneous Investments, Deposits and Advances:		
Investments, at or below cost (Note A)	\$ 15,388.31	\$ 14,035.01
Insurance and other deposits	3,717.32	3,717.32
Store repairs and improvements, recoverable from lessor	31,381.07	28,439.39
Note receivable	—	1,275.00
	\$ 50,486.70	\$ 47,466.72
Fixed Assets, at cost:		
Land	\$ 51,500.00	\$ 5,000.00
Buildings, furniture and equipment, etc.	1,103,406.16	1,077,601.36
Leasehold and improvements to leased buildings	724,325.33	724,325.33
	\$1,879,231.49	\$1,806,926.69
Less — Reserves for depreciation and amortization	1,302,800.69	1,238,297.65
	\$ 576,430.80	\$ 568,629.04
Deferred Charges:		
Unexpired insurance, prepaid taxes and other expenses	\$ 122,442.73	\$ 95,077.50
	\$5,337,181.54	\$4,943,077.01

	January 31	
	1943	1942
Current Liabilities:		
Accounts payable, trade	\$ 942,249.68	\$ 545,164.43
Payrolls, taxes and other accrued liabilities	423,629.66	266,471.45
Estimated provision for Federal taxes on income	1,190,653.05	419,251.22
Less — United States Treasury Notes, Tax Series C	500,000.00	—
Unclaimed dividends of predecessor company	1,024.88	1,024.88
	<hr/>	<hr/>
Total current liabilities	\$2,057,557.27	\$1,231,911.98
	<hr/>	<hr/>
Liability to Banks and Landlords, subject to agreement (Note A)	\$ 994,564.33	\$1,407,891.51
	<hr/>	<hr/>
Reserve for Contingencies and Post-War Adjustments	\$ 200,000.00	—
	<hr/>	<hr/>
Capital Stock and Surplus:		
Capital stock:		
Preferred, 7% cumulative (Note C):		
Authorized, 58,042 shares of a par value of \$25.00 per share		
Issued, 58,042 shares	\$1,451,050.00	\$1,451,050.00
Common:		
Authorized, 65,000 shares of no par value		
Issued, 62,788-11/15 shares	35,001.00	35,001.00
	<hr/>	<hr/>
Initial deficit (Note D)	\$1,486,051.00	\$1,486,051.00
	326,488.33	326,488.33
	<hr/>	<hr/>
Stated capital	\$1,159,562.67	\$1,159,562.67
	<hr/>	<hr/>
Earned surplus since reorganization April 8, 1937, per statement attached	925,497.27	1,143,710.85
	<hr/>	<hr/>
	\$2,085,059.94	\$2,303,273.52
	<hr/>	<hr/>
	\$5,337,181.54	\$4,943,077.01
	<hr/>	<hr/>

WESTERN DEPARTMENT STORES
AND WHOLLY OWNED STORE OPERATING COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS
YEAR ENDING JANUARY 31, 1943
(With comparative figures for year ending January 31, 1942)

	Year ending January 31 1943	1942
Net sales, including leased departments	\$15,416,248.43	\$11,388,125.93
Less — Sales of leased departments	2,152,562.54	1,882,397.31
	<u>\$13,263,685.89</u>	<u>\$ 9,505,728.62</u>
Cost of merchandise sold	8,630,442.10	6,197,147.60
	<u>\$ 4,633,243.79</u>	<u>\$ 3,308,581.02</u>
Gross profit on sales — own departments	389,271.59	267,633.97
Discounts on purchases	277,148.25	239,903.37
Gross income from leased departments	<u>\$ 5,299,663.63</u>	<u>\$ 3,816,118.36</u>
Selling, general and administrative expenses	3,600,968.79	2,934,957.07
	<u>\$ 1,698,694.84</u>	<u>\$ 881,161.29</u>
Provisions for depreciation and amortization	64,503.04	60,809.03
	<u>\$ 1,634,191.80</u>	<u>\$ 820,352.26</u>
Operating profit	80,925.87	82,374.61
Other income and credits	<u>\$ 1,715,117.67</u>	<u>\$ 902,726.87</u>
Other charges:		
Interest on bank loans, etc.	\$ 1,942.88	\$ 2,428.65
Miscellaneous	6,387.43	4,490.59
	<u>\$ 8,330.31</u>	<u>\$ 6,919.24</u>
Profit from store operations, before provision for Federal taxes on income	\$ 1,706,787.36	\$ 895,807.63
Net profit or loss of Shields Estate Company and its wholly owned company (Note B)	5,187.31	33,919.08
Management fee charged to Shields Estate Company	300.00	300.00
	<u>\$ 1,712,274.67</u>	<u>\$ 862,188.55</u>
Interest on liability under creditors' agreement	40,844.82	54,033.41
	<u>\$ 1,671,429.85</u>	<u>\$ 808,155.14</u>
Estimated provision for Federal taxes on income:		
Income taxes	\$ 200,000.00	\$ 200,077.96
Excess profits tax (debt retirement credit availed of in lieu of post-war refund credit of approximately \$109,000.00 — year ending January 31, 1943)	981,000.00	219,123.31
	<u>\$ 1,181,000.00</u>	<u>\$ 419,201.27</u>
Net profit for year	<u>\$ 490,429.85</u>	<u>\$ 388,953.87</u>
Provision for loss on investment in Shields Estate Company	\$ 500,000.00	—
Provision for contingencies and post-war adjustments	200,000.00	—
Additional provision for Federal taxes on income in respect of prior years . . .	8,643.43	—
	<u>\$ 708,643.43</u>	<u>—</u>
Balance transferred to earned surplus	\$ 218,213.58	\$ 388,953.87
Earned surplus at beginning of year	1,143,710.85	754,756.98
	<u>\$ 925,497.27</u>	<u>\$ 1,143,710.85</u>
Earned surplus at end of year (accumulated since reorganization, April 8, 1937)	<u>\$ 925,497.27</u>	<u>\$ 1,143,710.85</u>

(See accompanying notes to financial statements)

WESTERN DEPARTMENT STORES AND WHOLLY OWNED STORE OPERATING COMPANIES

NOTES TO FINANCIAL STATEMENTS — JANUARY 31, 1943

General note relative to consolidation:

The consolidated financial statements include the accounts of Western Department Stores and its wholly owned subsidiary companies engaged in department store operations, listed below:

Store operating companies:

Kahn Department Stores, Inc.
Olds, Wortman & King, Inc.
Northwest Department Stores, Inc.

Related real estate company:

Morrison & Tenth Company

The accounts of the wholly owned companies not connected with store operations, Shiels Estate Company and its wholly owned subsidiary, have not been consolidated with those of Western Department Stores.

NOTE A:

The capital stocks of all of the wholly owned companies, and an investment carried at \$1,472.00, are pledged as collateral on the liability to banks and landlords, subject to an agreement between these creditors and B. F. Schlesinger & Sons, Incorporated (predecessor company), dated August 21, 1933, providing for forbearance by such creditors until June 1, 1936, which period of forbearance was extended to March 31, 1939, by supplemental agreement dated April 7, 1937; the assets pledged were acquired by Western Department Stores, subject to the above mentioned liabilities and pledge agreements, on April 8, 1937. Also, under such agreements dividends on stocks of the subsidiary companies and other investment are paid directly to a pledgeholder for distribution to the creditors. The period of forbearance has been extended to March 31, 1943, by annual supplemental agreements dated as of April 1 of each year and, based on discussions Company officials have had with the creditors, a modification or forbearance for another year is expected.

NOTE B:

The investment in Shiels Estate Company is carried at cost to the predecessor company, B. F. Schlesinger & Sons, Incorporated, plus profits or minus losses of such company and its wholly owned company since date of acquisition by B. F. Schlesinger & Sons, Incorporated; the accumulated losses were \$9,717.93 as at January 31, 1943, and \$14,905.24 as at January 31, 1942. The judgment of the management is that the carrying value of this investment is substantially in excess of its estimated realizable value and the reserve of \$500,000.00 has been established to apply against possible loss.

The net results of this subsidiary and its wholly owned company included in the consolidated statement of profit and loss were a net profit of \$5,187.31 for the year ending January 31, 1943, and a loss of \$33,919.08 (operating profit of \$5,122.17 less loss on sale of real estate \$39,041.25) for the year ending January 31, 1942; no dividends have been received from Shiels Estate Company since date of acquisition.

NOTE C:

The articles of incorporation provide that in the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, holders of the 7% preferred stock shall be entitled to receive \$27.50 per share plus all dividends accrued thereon. The aggregate liquidating value of the 58,042 shares of preferred stock plus the cumulative dividends thereon accrued from January 1, 1937, and the book value of net assets of the Company at January 31, 1943, and January 31, 1942, are shown hereunder:

	January 31	
	1943	1942
Liquidating value	\$1,596,155.00	\$1,596,155.00
Cumulative dividends accrued from January 1, 1937, per share \$10.9375 to January 31, 1943, and \$9.1875 to January 31, 1942	634,834.37	533,260.87
Liquidating value plus accrued dividends	\$2,230,989.37	\$2,129,415.87
Book value of net assets (see Note B)	2,085,059.94	2,303,273.52
Deficiency in book value of net assets	<u>\$ 145,929.43</u>	
Excess of book value of net assets		<u>\$ 173,857.65</u>

Under the agreements with creditors mentioned in Note A, the Company shall not declare any dividends upon its stock without written approval by any four of the signatory creditors.

NOTE D:

The par value of the preferred stock and the stated value of the common stock of the Company issued in the reorganization, April 8, 1937, exceeded the net assets acquired from the predecessor company by \$326,488.33, which accounts for the initial deficit of that amount.

SHIELS ESTATE COMPANY
AND WHOLLY OWNED COMPANY

CONSOLIDATED BALANCE SHEET — JANUARY 31, 1943

ASSETS

Land and building, O'Farrell and Stockton Streets, San Francisco (Note A)	\$1,116,825.69	
Less — Reserve for depreciation	128,309.09	\$ 988,516.60
	<hr/>	
Investments, as valued by Directors on January 31, 1934:		
Western Department Stores, 320 shares of common stock	\$ 4,000.00	
Real estate	388.40	4,388.40
	<hr/>	
Cash in bank		15,672.96
Cash held by Trustee for redemption of bonds		115.71
Note receivable, secured by deed of trust to real estate		21,191.97
Deferred charges:		
Unexpired insurance and prepaid taxes	\$ 959.28	
Unamortized discount on bonds	17,446.07	18,405.35
	<hr/>	
		<u>\$1,048,290.99</u>

LIABILITIES

O'Farrell & Stockton Realty Company first mortgage 5½% freehold bonds, Series "A" of 1947 (extended to 1952) (Note B)	\$ 798,500.00	
Less — Held in treasury	2,000.00	\$ 796,500.00
	<hr/>	
Accrued interest and taxes		13,692.55
Owing to Western Department Stores		11,684.00
Provision for Federal income taxes		4,123.49
		<hr/>
		\$ 826,000.04
Capital stock and surplus:		
Capital stock		
Authorized, 7,000 shares of \$100.00 par value per share		
Issued and outstanding, 3,090 shares	\$ 309,000.00	
Capital surplus	202,482.61	
	<hr/>	
	\$ 511,482.61	
Deficit from operations, per statement attached	289,191.66	222,290.95
	<hr/>	
		<u>\$1,048,290.99</u>

Note A — The book value of the O'Farrell and Stockton Streets, San Francisco, property is based on an appraisal made in 1927 by Marten C. Madsen, as shown in a copy of a prospectus covering the offering of \$1,100,000.00 of Series "A" bonds of O'Farrell & Stockton Realty Company made in that year. This book value has been reduced in the above balance sheet by \$203,328.31 as of August 1, 1933, and \$500,000.00 as of January 31, 1943, to bring the adjusted capital stock and surplus of Shiels Estate Company and its wholly owned subsidiary into agreement with the carrying value of the stock of Shiels Estate Company in the books of Western Department Stores. The amount at which the property is stated in the above balance sheet does not purport to represent present realizable value.

Note B — Under the provisions of the deed of trust as amended, the wholly owned subsidiary, O'Farrell & Stockton Realty Company, is required to deposit with the Trustee on April 1 of each year, for purchase and retirement of first mortgage 5½% freehold bonds, Series "A", cash or bonds held by that company equal to the annual net earnings as defined in the deed of trust. Such net earnings for the fiscal year ending January 31, 1943, were \$14,205.83.

SHIELS ESTATE COMPANY
AND WHOLLY OWNED COMPANY

CONSOLIDATING STATEMENT OF PROFIT AND LOSS AND DEFICIT

YEAR ENDING JANUARY 31, 1943

	Shiels Estate Company	O'Farrell & Stockton Realty Company	Consoli- dated
Income:			
Rents		\$ 90,000.00	\$ 90,000.00
Interest	\$ 1,041.97	—	1,041.97
	<u>\$ 1,041.97</u>	<u>\$ 90,000.00</u>	<u>\$ 91,041.97</u>
Expenses:			
Taxes, real estate	\$ 18.41	\$ 24,459.07	\$ 24,477.48
Management fee paid to Western Department Stores	300.00	—	300.00
Other expenses and taxes	50.00	3,487.88	3,537.88
	<u>\$ 368.41</u>	<u>\$ 27,946.95</u>	<u>\$ 28,315.36</u>
	<u>\$ 673.56</u>	<u>\$ 62,053.05</u>	<u>\$ 62,726.61</u>
Provision for depreciation	—	\$ 8,506.68	\$ 8,506.68
Bond interest	—	43,892.12	43,892.12
Amortization of bond discount	—	2,174.51	2,174.51
	<u>—</u>	<u>\$ 54,573.31</u>	<u>\$ 54,573.31</u>
	<u>\$ 673.56</u>	<u>\$ 7,479.74</u>	<u>\$ 8,153.30</u>
Excess of face value over cost of bonds purchased or retired during year	—	1,157.50	1,157.50
Profit before providing for Federal income taxes	\$ 673.56	\$ 8,637.24	\$ 9,310.80
Provision for Federal income taxes	168.39	3,955.10	4,123.49
Net profit for year	<u>\$ 505.17</u>	<u>\$ 4,682.14</u>	<u>\$ 5,187.31</u>
Deficit or <i>surplus</i> from operations, January 31, 1942	\$325,841.45	\$ 31,462.48	\$294,378.97
Net <i>profit</i> for year	505.17	4,682.14	5,187.31
Deficit or <i>surplus</i> from operations, January 31, 1943	<u>\$325,336.28</u>	<u>\$ 36,144.62</u>	<u>\$289,191.66</u>

